



Associates Inc.

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**ERITREAN
CHAMBERS OF
COMMERCE:
STRATEGIES FOR
SUSTAINABILITY**

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TABLE OF CONTENTS

EXECUTIVE SUMMARY	iii
PREFACE	vi
ACRONYMS AND CURRENCY	vii
1. BACKGROUND	1
1.1 INTRODUCTION	1
1.2 THE PRIVATE SECTOR	1
1.3 ISSUES AFFECTING THE PRIVATE SECTOR	2
1.4 PUBLIC SECTOR POLICY	4
1.5 INSTITUTIONAL INFRASTRUCTURE	6
2. THE CHAMBER OF COMMERCE SYSTEM	8
2.1 HISTORICAL CONTEXT	8
2.2 CURRENT SITUATION	9
2.3 ORGANIZATIONAL ISSUES	10
2.4 MEMBERSHIP ISSUES	12
2.5 FINANCIAL ISSUES	15
2.5.1. Current Financial Position	15
2.5.2. Recent Financial Performance	16
2.5.3. Financial Prospects	17
2.6 SERVICE ISSUES	19
2.7 HUMAN RESOURCES AND INSTITUTIONAL DEVELOPMENT	22
2.8 PHYSICAL FACILITIES	23
2.9 OTHER CITY CHAMBERS	24
2.10 AN ERITREA CHAMBER OF COMMERCE	25
3. INSTITUTIONAL DEVELOPMENT AND ASSISTANCE PRIORITIES	27
3.1 INTRODUCTION	27
3.2 STRUCTURAL ISSUES	27
3.3 SERVICE ISSUES	29
3.4 HUMAN RESOURCES AND INSTITUTIONAL DEVELOPMENT	30
3.5 CITY CHAMBERS AND THE NATIONAL NETWORK	31
3.6 NEEDS FOR EXTERNAL SUPPORT	32

LIST OF EXHIBITS

Figure 1. Number of Businesses Registered and Trade Licenses Issued	7
Figure 2. Asmara Chamber of Commerce Organization Chart	11
Figure 3. Chamber Membership	12
Figure 4. Potential Gains from Simplification of Subscription Categories	18
Figure 5. Recommendations: Organizational and Membership Issues	28
Figure 6. Recommendations: Financial Structure	29
Figure 7. Recommendations: Service Delivery	30
Figure 8. Recommendations: Staff and Institutional Development	31
Figure 9. Recommendations: Regarding a National Chamber System	32

LIST OF ANNEXES

ANNEX A. NUMBER OF ESTABLISHMENTS BY INDUSTRIAL GROUP	34
ANNEX B. ASMARA CHAMBER OF COMMERCE BALANCES, 1991-1992	37
ANNEX C. ASMARA CHAMBER OF COMMERCE STATEMENT OF INCOME AND EXPENDITURE, 1991-1992	38
ANNEX D. ASMARA CHAMBER OF COMMERCE MEMBERSHIP FEES	40
ANNEX E. LIST OF INTERVIEWS	42

EXECUTIVE SUMMARY

This study examines the internal organizational and financial structure of the Asmara Chamber of Commerce and the public policy and private sector environments in which it operates. In addition, and no less important, the potential for nurturing new chambers in other Eritrean cities and creating a national chamber of commerce system is reviewed.

Background. Private sector development has been stalled, even reversed, during the last three decades, when much of Eritrea's physical infrastructure -- road networks, bridges, electric power, water supply and telecommunications -- has been neglected, damaged, or deliberately dismantled. Social infrastructure -- schools, hospitals, clinics and community centers -- has similarly been destroyed or severely damaged. Encouraged by a liberalized economy, both private and public enterprises -- small and large -- are rebuilding.

The Private Sector. It is against this background that Eritrea's private sector must reorganize and restructure. In order to resume and enhance its vital role within the economy, the private sector requires strong leadership and vibrant institutions to facilitate cooperation and represent its collective commercial and economic interests. Given the urgency of the need to mobilize resources, there is the danger that if the private sector does not take full advantage of responsibilities, the Government will move to fill the vacuum.

The Asmara Chamber of Commerce. The Asmara Chamber of Commerce has continued to operate during the difficult times, and is now seeking to change and to grow to reflect the strengths and opportunities of the emerging private sector in a market economy. A new proclamation has been drafted to provide for its re-establishment along more conventional and democratic lines, and tentative steps have been taken to reestablish normalcy, but the Chamber is operating in an undefined status at the moment.

Organization. The organization and membership issues confronting the Asmara Chamber call for the following actions:

- The new proclamation should be adopted as soon as possible to resolve the current ambiguous status of the Chamber, immediately after which the Chamber should convene the general assembly.
- The Chamber should avoid over-structuring and compartmentalizing its internal functioning.
- The Chamber should adopt the proposal to divide its membership into sectoral groupings.
- Given the specific context of post-war Eritrea, the Chamber should depart from the norm of not allowing public sector entities among its membership, but this should be a clearly limited, temporary measure.

- The Chamber should create an affiliate membership for special organizations.

Finances. The Chamber's financial position has been relatively favorable for the last several years owing to the fact of mandatory membership. It has, however, been very dependent on subscription income, and its fee structure is complicated.

- The Chamber should continue its program to bring its accounts and associated financial records into its computer system.
- The Chamber should seek to reduce its high dependence on subscription income.
- The Chamber should revise and simplify its fee structure.

Service Issues. The Chamber should look to increase its revenues through fees for the services it provides.

- The Chamber should perform services for the Government on a cost plus or fee basis.
- The Chamber should operate the former Asmara Expo facility as an income earning activity.
- The Chamber should develop programs to coordinate and deliver training on a fee-for-service basis.
- The Chamber should rationalize its existing publications into a quarterly journal and a more frequently issued newsletter.

Human Resources. The Chamber's staff will benefit from training.

- The Chamber should pursue an aggressive program of staff development and training.
- The Chamber should endeavor to link with overseas organizations to benefit from "peer-to-peer" technical assistance.

Other Chambers. The proclamation re-establishing city chambers is expected to provide for the establishment of autonomous entities. The Asmara Chamber will play a vital role in the formation and initial guidance of these bodies, as well as in the creation of a national chamber.

- The former branch towns should be the first city chambers to be re-established.
- The Chamber should begin feasibility planning for a national, small enterprise development program.

- An independent Eritrea Chamber should be formed, but it should rely on a close linkage with the Asmara Chamber.

The event that will set all other actions in motion, at least officially, will be the issuing of the new proclamation by the Government. This will establish the framework for the Asmara Chamber's operations and the external structure of the national chamber network. The Chamber has rightly devoted considerable effort to working with the Government on defining the legal and institutional arrangements, and it should maintain that working relationship as the need for fine tuning will undoubtedly arise.

PREFACE

This study was undertaken over the course of two visits to Eritrea, first by Mr. Adrian Augier (Executive Director of the St. Lucia Chamber of Commerce, Industry and Agriculture) in November 1993, and then by Mr. John Miller (Urban Development Planner) in January-February 1994. The report is intended to assist the Government of Eritrea and the Asmara Chamber of Commerce in understanding the problems facing the private sector, and propose a strategic program to create a national chamber of commerce system and strengthen the existing Chamber structure.

Several people were instrumental in the preparation of this study. The Board of the Asmara Chamber of Commerce and Secretary General Ato Kiflemariam Zerom provided information, insights, and a vision of an Eritrean chamber of commerce system. The Asmara Chamber of Commerce kindly provided office space and support staff. Dr. George Jones, USAID Coordinator in Asmara, provided overall guidance to the team's work, as well as office support.

It should be noted that this study benefitted from an analysis being carried out at the same time, *An Assessment of Municipal Management in Eritrea*. The Municipal Management analysis was undertaken in November 1993 by Mr. Edward H. Robbins (Urban Planning Consultant), who worked and traveled with Mr. Augier for this study. They benefitted from the help of Ato Kiflemariam Abraham, Lecturer of Management at the University of Asmara, who was a valuable interpreter of the realities of Eritrea and the language of Tigrinya, in Asmara as well as on visits to several cities.

Grateful acknowledgement is also made to those Eritreans from the public and private sector named in Annex E, including those interviewed for the Municipal Management study, who shared information and ideas in Asmara and the several towns visited around the country.

Special attention must be called to Dr. Howard Sumka, Housing and Urban Development Officer based with the Regional USAID Office in Nairobi, who guided the study's completion, ultimately contributing major substantive improvements to the final report. It is fair to say that in this uncommon way, Dr. Sumka has served as the leader of the technical team, rather than the manager of a consultant team. For this I am grateful.

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ACRONYMS AND CURRENCY

AEPE	Association of Exporters and Producers of Eritrea
EIC	Eritrea Investment Center
EPLF	Eritrean People's Liberation Front
GATT	General Agreement on Trade and Tariffs
UNCTAD	United Nations Center for Trade and Development

January 1994 Exchange Rate:

1 birr equals approximately US\$.17

US\$1.00 equals approximately birr 5.78

1. BACKGROUND

1.1 INTRODUCTION

Like most of the Eritrean economy, the private sector has been severely debilitated by thirty years of war, recurrent drought, environmental degradation and economic mismanagement. The effects of prolonged unrest are most visible outside of Asmara, the capital city, which has escaped physical damage but not the economic dislocation which pervades the economy.

Private sector development has been stalled, even reversed, during the last three decades, when much of the country's physical infrastructure -- road networks, bridges, electric power, water supply and telecommunications -- has been neglected, damaged, or deliberately dismantled. Social infrastructure -- schools, hospitals, clinics and community centers -- has similarly been destroyed or severely damaged. The consequent effects on health, education, and economic opportunity have been immense.

1.2 THE PRIVATE SECTOR

Private sector initiative and autonomy were crippled by a policy of nationalization and expropriation, initiated in 1974/75 under the Derg regime and which endured until its defeat in 1991. During this period, the regime effectively took ownership and control of much of the country's productive capacity. As shown in Annex A, approximately forty major companies remain in public hands, including manufacturing ventures in agro-industry, textiles, tanning and leather goods, industrial chemicals, glass products, etc.

The private sector is characterized by many small businesses, the majority of which are single proprietorships with very limited capital. In Semhar province, where Massawa, the second city and principal port of Eritrea is located, only two limited liability companies were registered and licensed with the Ministry of Trade. There were, however, no less than 284 service establishments, 865 general shops, and 136 wholesalers, licensed as of November 1993. Many of these were small owner-operated establishments catering to their immediate communities. Of the registered service establishments for instance, tearooms, bars and restaurants accounted for 76%. Similarly, small general shops selling mainly food and clothing accounted for some 88% of total retail outlets. Similar profiles were observed in other cities.

To further illustrate this situation, the Asmara Chamber of Commerce reports some 6,588 members for 1992. Of this number, approximately 4,300, or 65%, are entities with less than birr 5,000 registered capital (approximately US\$865). Similarly, of its 57 largest members, roughly 70% are public sector companies accounting for more than half of the Chamber's subscription revenue.

1.3 ISSUES AFFECTING THE PRIVATE SECTOR

Industry and Foreign Trade. The country's industrial capacity has declined, owing to capital flight, a lack of replacement capital, outmoded technology and prolonged mismanagement. Most industrial plants are estimated to be operating below 50% capacity due to shortages of raw materials, energy or foreign exchange for vital inputs and replacement parts. Others are judged to be high-cost and inappropriately scaled for today's competitive markets.

The erosion of productive capacity resulted in the country losing its previous competitive position as an exporter of a wide range of agricultural, semi-processed and manufactured goods. Export markets, particularly in Europe and the Middle East, need to be recaptured to meet foreign exchange requirements, to augment Eritrea's limited domestic market and to generate employment for Eritrea's resident and returning refugee populations.

Agricultural and Natural Resources. Agriculture employs nearly 80% of the nation's nearly three million population, and has the greatest potential for economic resuscitation. Eritrea has a range of climate and topography which makes possible the cultivation of a wide variety of crops. Although average annual rainfall is very low, ground water resources can be tapped in many areas for irrigation.

Much agricultural activity remains at subsistence level due to soil conditions, land tenure patterns, lack of capital, and the absence of agricultural surpluses. Improvements in these areas are urgently needed to generate private savings and investment in productivity-enhancing technology. Widespread environmental degradation, which accompanied economic dislocation, exacerbates problems of low rainfall and low yields, making further demands on scarce resources to halt and reverse deforestation and erosion. Nevertheless, agricultural exports are showing positive signs of recovery, and major new projects are receiving government consideration.

The vast potential of Eritrea's physical and natural resources lie idle, unexplored or underexploited. Natural resources include gold, copper, potash, magnesium, zinc, and iron ore. Copper and potash deposits in the south of the country have been previously exploited. Eritrea also has an abundant marine resource in its extensive coastal waters along the Red Sea. These have not been commercially exploited and there is only limited artisanal fishing along the coast. There has been some loss of related skills as a result of the prolonged war.

Coastal and inland tourism also shows considerable potential. This is especially evident in the Dahlak Archipelago of the Red Sea and in the many historic and scenic areas of the country. Nevertheless, the ability of private individuals to invest in such new ventures is severely constrained at this time due to the depressed state of the economy.

Human Resources. The transfer of strategic capabilities to Ethiopia, coerced migration, and emigration of skilled and professional expertise, complicate the task of

reviving the private sector. The University of Asmara, an important institution of higher learning, reopened in December 1993 still confronting problems of reorganization and new staff recruitment. Expatriate Eritreans wishing to participate in the economic reconstruction are constrained by the lack of basic infrastructure, particularly housing. Uncertainties arising from an evolving policy environment, and the limited absorptive capacity of the economy, further delay recovery.

Banking and Finance. The banking sector is dominated by the Bank of Eritrea, and the Commercial Bank of Eritrea, both government owned. Currently, the commercial banking system is reportedly liquid, although in 1992, it temporarily suspended interest payments on some deposits. Savings rates are about 8% on deposit accounts not exceeding birr 100,000 (approximately US\$17,300). Thereafter, interest rates fall to 5%. Multiple savings accounts to avoid the birr 100,000 ceiling are prohibited. The Commercial Bank has thirteen branches throughout the country.

Despite its liquidity, the system suffers from limited convertibility due to a shortage of hard currency. In addition, the system appears to be characterized by individual, small depositors many of whom lack the critical level of capital, collateral or creditworthiness required to break out of traditional subsistence economic activity into new, diversified or significantly expanded ventures.

It is expected that the Bank of Eritrea will assume the role of an autonomous central bank for Eritrea as soon as practicable. However, in the interim, it continues to use the Ethiopian birr as legal tender. This puts obvious constraints on the Government's monetary policy options, and its ability to regulate and monitor financial flows. The Government nevertheless observes a cautious monetary policy.

Related issues of asset ownership and collateral are further exacerbated by a complex system of land ownership which precludes individual title. Moreover, anecdotal evidence suggests that where legitimate title may have been previously established, land registry records have been either lost, destroyed or rendered useless by widespread improper transfer of property during the Derg and previous regimes. This very sensitive problem, affecting virtually all lands in Eritrea, is the subject of study of the Land Commission which is mandated to seek temporary and long-term solutions to problems related to title and tenure. This matter also affects Government's ability to allocate lands for new development and to accelerate privatization of industry.

Land Use. A related issue is that of physical planning which in the post-war period has taken on increased significance. In its efforts to promote balanced and organized development, to adequately manage the reconstruction effort and the relocation of returning refugees, the Government of Eritrea has placed great importance on the development and issuance of master plans for major urban centers. In the face of limited resources however, a clear demarcation of residential, industrial, and commercial areas has yet to be made in some localities.

This may further delay private investment, especially when coupled with the issue of land tenure. Currently, the Government does not have clear procedures for the acquisition, vesting or transfer of lands for public and other purposes such as required for new investments. Nor has there been an appropriate proclamation to address issues related to compensation. Besides its potential effect on new investment, the security normally offered by private land ownership is therefore unavailable. Services related to the real estate sector were not evident. Despite this picture, specific proposals for investment purposes, handled on a special case basis, are encouraged and promoted.

1.4 PUBLIC SECTOR POLICY

Liberal Economic Policy. The Government of Eritrea has explicitly drawn a liberal economic policy intended to release private initiative, encourage domestic and foreign investment and accelerate development. It has also placed emphasis on decentralization and balanced growth with the intention of avoiding excessive concentration of socio-economic pressures in a few urban centers. The declared role of the state is to provide essential economic and social infrastructure, to undertake critical and strategic productive ventures in conjunction with local and/or foreign private capital, and to intervene in economic areas only where it appears critical given the weakened state of the economy.

Major public sector priorities include agriculture, industry and essential infrastructure. The public sector faces many of the same resource constraints, particularly those related to building a competently staffed and functioning administration. Given the scale of the task and the comparative paucity of resources available to tackle the many priorities, a major role has been allocated to the private sector in the process of reconstruction. Its role is defined as much by the Government's immediate objectives as by its immediate limitations in the effort to get the economy functioning at a basic level.

To encourage private sector participation, the Eritrean Government has committed itself to reversing restrictive policies, maintaining a liberal trade and exchange rate regime, and to privatization over time of previously nationalized entities.

Owing to three decades of war the Eritrean public sector, as the whole economy, is in a state of transition. The Government is adopting a cautious stance on major policy issues and is attempting to consider a wide range of options and other-country experiences before concluding its strategy.

The Government has committed itself to fostering a vibrant private sector in a market-oriented economy. This commitment has its roots in the earliest policy statements following the end of the war as reflected in documents such as the Trade Industry and Manufacturing Commission publication *Emergent Eritrea: Challenges of Economic Development*. This early document embraces, *inter alia*, the following principles:

- wide opportunities for private investment, both domestic and foreign;
- Government support for new industry that encourages enterprises to be independently viable within the shortest possible time;
- market determined prices for industrial products; and
- divestment of previously nationalized industries.

In the interim, successive proclamations have confirmed this orientation as reflected, for example, in the Investment Proclamation (No. 18/1991) which explicitly recognizes the role of market forces and facilitating investment as positive and expeditious means of allocating scarce resources, achieving accelerated growth, generating employment and expanding export potential.

Fiscal Incentives. A range of fiscal and other incentives are accessible to the private sector both domestic and foreign. Incentives are available to entities engaged in all the major sectors of the Eritrean economy. Particular emphasis has been placed on contributions to export development and/or import-substitution. Explicit encouragements are also afforded to joint ventures utilizing foreign and local capital, particularly in the transportation and telecommunications sectors where state involvement is also envisioned. Incentives, which may vary positively with scale and strategic importance of a project, include:

- exemptions from customs duties and taxation on capital inputs, export products, and raw materials not suitably available from local sources;
- exemption from income tax for up to five years according to scale of investment available to new investment as well as major expansions;
- export incentives including tax rebates and preferential allocation of scarce foreign exchange for critical inputs; and
- tax rebates or credits for expenditure on technical studies, research, training of nationals, etc.

Corporate Taxation. Proclamation 18/1991 further stipulates a maximum tax on repatriated dividends of 10%, and a maximum corporate tax rate of 40%. Also noteworthy is the explicit bias in this legislation favoring the use of local raw materials and inputs as well as local expertise and technology where practicable. While incremental rewards and incentives may be granted to encourage local sourcing of these elements, the legislation does not -- except in relative terms -- penalize the sourcing of productive elements from outside the country. Finally, the Proclamation explicitly bars government from establishing state monopolies in areas designated for fiscal incentives to private enterprise.

An apparent anomaly in the enabling environment relates to the issue of taxes payable on rental income. A national tax of 48%, a surcharge of 2% and a provincial tax of 4% account for a cumulative tax of some 54%. This appears to be inconsistent with government's intentions to stimulate the economy and will impede amelioration of the shortage of housing units observed at all levels.

Nevertheless, taken collectively, these and other government policies constitute a relatively progressive and transparent policy environment for private investment.

1.5 INSTITUTIONAL INFRASTRUCTURE

Local private enterprise is promoted in a number of ways. Proclamation 18/1991 established the Eritrea Investment Center (EIC) as the primary institution for investment promotion. The Center is charged with the responsibility of assessing both local and foreign investment proposals and applications, issuing investment licenses, permits and certificates regarding official incentives and may generally monitor and regulate the agencies within its official ambit.

The Asmara Chamber of Commerce is represented on the board of the EIC, as are major government agencies. The EIC assesses investment proposals and makes recommendations to various ministries involved in the decision-making process. The center may also make representations to the commercial bank and may recommend projects for loan financing. Of 184 projects under active consideration, the center has approved and issued certificates for about 70, the majority of which are to be located outside of Asmara. Of note, foreign entities may borrow locally for purposes of investing in Eritrea.

Discussions with private sector representatives and potential investors indicate that the EIC is seen as an effective facilitating agency, despite its inability to resolve issues related to land ownership for investment purposes.

The Ministry of Trade, Industry and Tourism interacts frequently with the business community, most notably through its issuance of trade licenses. These are required by all registered businesses and are renewed on an annual basis. At least five categories of general licenses are currently issued for which fees vary from birr 200 to 300 (US\$34 to \$52): Import; Export; Commission Agent; Import/Export; and Border Trade (Barter License). A sixth category, Import/Re-export is to be introduced in 1994. Foreign Trade Licenses are also in effect for the import of specific commodities, in respect of which the beneficiary must satisfy a set capital requirement. The Ministry has representatives in each municipality whose primary functions include the issuance and renewal of licenses. Figure 1 below shows that general shops are the most common business establishment.

In the absence of other forms of easily collectable revenues and the generally limited tax base, such business or traders' licenses constitute a major source of public revenue

especially at the provincial level. These funds are used to meet recurrent expenses as opposed to capital expenditure financed by central government.

In many cases statistics on business licenses were the sole indicator of the size and diversity of the trading sector. Although export taxes are charged on the invoice value of shipments officially recorded, sources confirm that many transactions are not recorded and are not therefore reflected in official statistics.

Figure 1. Number of Businesses Registered and Trade Licenses Issued

Province	Services	Wholesalers	Shops	Total
Hamasién	143	62	1,160	1,365
Seraye	236	388	1,570	2,194
Asmara	1,513	219	3,298	5,030
Akele Guzai	358	143	1,055	1,556
Denkalia	197	18	315	530
Senhit	319	44	1,611	1,974
Barka	304	82	517	903
Semhar	209	23	673	905
Sahel	69	22	938	1,029
Gash Setit	713	119	1,813	2,645
Total	4,061	1,120	12,950	18,131
Source: Ministry of Trade				
Note: Does not include import and export licenses.				

In conclusion, it is against this mixed economic background that Eritrea's private sector must reorganize and restructure. In order to resume and enhance its vital role within the economy, the private sector requires strong leadership and vibrant institutions to facilitate cooperation and represent its collective commercial and economic interests. Given the urgency of the need to mobilize resources, there is the danger that if the private sector does not take full advantage of responsibilities, the Government will move to fill the vacuum.

2. THE CHAMBER OF COMMERCE SYSTEM

2.1 HISTORICAL CONTEXT

To understand the goals of the Asmara Chamber of Commerce, it is important to recognize the considerable achievements of the organization prior to the war. These early achievements represent a minimum standard to which the organization ought to be rebuilt, and from which it seeks further development in the context of post-war Eritrea.

The origin of the Asmara Chamber dates back to the early 1940s at which time it was known as the Association of Exporters and Producers of Eritrea (AEPE). Although full accreditation as a chamber did not come until 1947, the early organization was well structured along conventional chamber lines, with a board of directors and a diversified membership base. Its earliest activities included the organization of the highly successful Exhibition of Economic Activities of Eritrea in December 1943, and the biweekly publication of "Bulletin of Commerce, Industry, Finance and Agriculture of Eritrea."

The Chamber has been preeminent in the commercial landscape of the country for some time. Indicative of this is the fact that it has owned and occupied its premises since March 1968. Its significant involvement in the Trade Expositions of 1969 and 1972, as well as in other facets of the economic and commercial life of the country are further measures of its importance. Reflecting the trends of the time, the organization gradually widened its representational mandate and in 1971 became the Chamber of Commerce, Industry, Agriculture and Handicraft of Eritrea.

The Asmara Chamber elected its first Eritrean President in October 1972, which reflected the increasing importance of the indigenous business community and the declining significance of its early Italian origins. This was soon followed by the appointment of an Eritrean Secretary General and the increasing indigenization of the Chamber's membership, Board of Directors, and staff. As the organization matured, new functions and areas of responsibility were assumed. In 1972 the membership comprised 480 companies, and there were special committees for Finance, Government Relations, Investment Promotion, Export Promotion, and Public Relations. Distinct departments were subsequently formed covering Administration and Finance, Public Relations, and Trade and Development.

The Chamber faced its greatest challenge during the period of the Derg. In 1975 the majority of its large member companies were expropriated and nationalized. Proclamation No. 148/1978 changed the entire orientation of the Chamber from a private sector organization to a *de facto* arm of the Government of Ethiopia, under the purview of the Ministry of Commerce and Tourism. An indication of the intended redirection of the Chamber is contained in the preamble of the proclamation, which claimed that "...the existing Chambers of Commerce [did] not meet the needs of socialist Ethiopia in their purposes, duties and organizations." (Negarit Gazeta, 1978) In fact, the proclamation established the Ethiopian Chamber of Commerce, to be based in Addis Ababa, of which the previously

autonomous Eritrea Chamber of Commerce, Industry, Agriculture, and Handicraft was to effectively become a satellite or city chamber.

2.2 CURRENT SITUATION

Today the Chamber faces yet another reorganization precipitated by the return to a market economy. The Chamber's resuscitation started in late 1991. A new proclamation has been drafted to provide for its re-establishment along more conventional and democratic lines, and tentative steps have been taken to reestablish normalcy, but the Chamber is operating in an undefined status at the moment.

RECOMMENDATION 1: The new proclamation should be adopted as soon as possible to resolve the current ambiguous status of the Chamber, immediately after which the Chamber should convene the general assembly.

The Chamber is without formal direction, indeed without formal status, and will remain so until the new proclamation becomes effective. It is imperative that this be resolved as soon as possible so as to set the organization on its formal course. Although the Chamber is in touch with its membership as needed on specific matters, the general assembly has not been convened since April 1991. This is attributed to the hiatus created by the *de facto* suspension of the previous proclamation and the drafting of the replacement. The board of directors meets roughly on a monthly basis. Together with the Secretary General, who is retained on contract, former board members currently function as a caretaker group pending reorganization and adoption of new internal guidelines.

The office of President is effectively vacant due to the resignation of the incumbent from the public sector company which he represented. There is currently no functioning vice-president. As with meetings of the general assembly, the election of new officers has been suspended until the new proclamation.

As soon as possible after the proclamation is issued, the Chamber should convene the general assembly of paid-up members and adopt its internal regulations and elect a new board. The primary function of the new board would be to consider the budget and other financial issues facing the Chamber and to arrive at appropriate decisions.

During this interim period, the membership has been receiving periodic trade related information, government notifications, and other circulars. The Chamber has continued to intervene with government ministries on behalf of individual and group members. Periodic consultations on matters affecting the business community have also been held, as have meetings with the Government to address trade constraints. The staff have essentially been functioning in a caretaker mode, but have also undertaken important tasks such as the drafting of internal regulations to accompany the new proclamation.

2.3 ORGANIZATIONAL ISSUES

The main organs of the Chamber have in principle been revived and are functioning in at least a minimal capacity. The organizational structure currently observed is shown on Figure 2. The Chamber's 25 employees are organized into four principal departments.

- Secretary General/Administration
- Public Relations and Publications
- Research and Trade Information
- Accounts and General Services

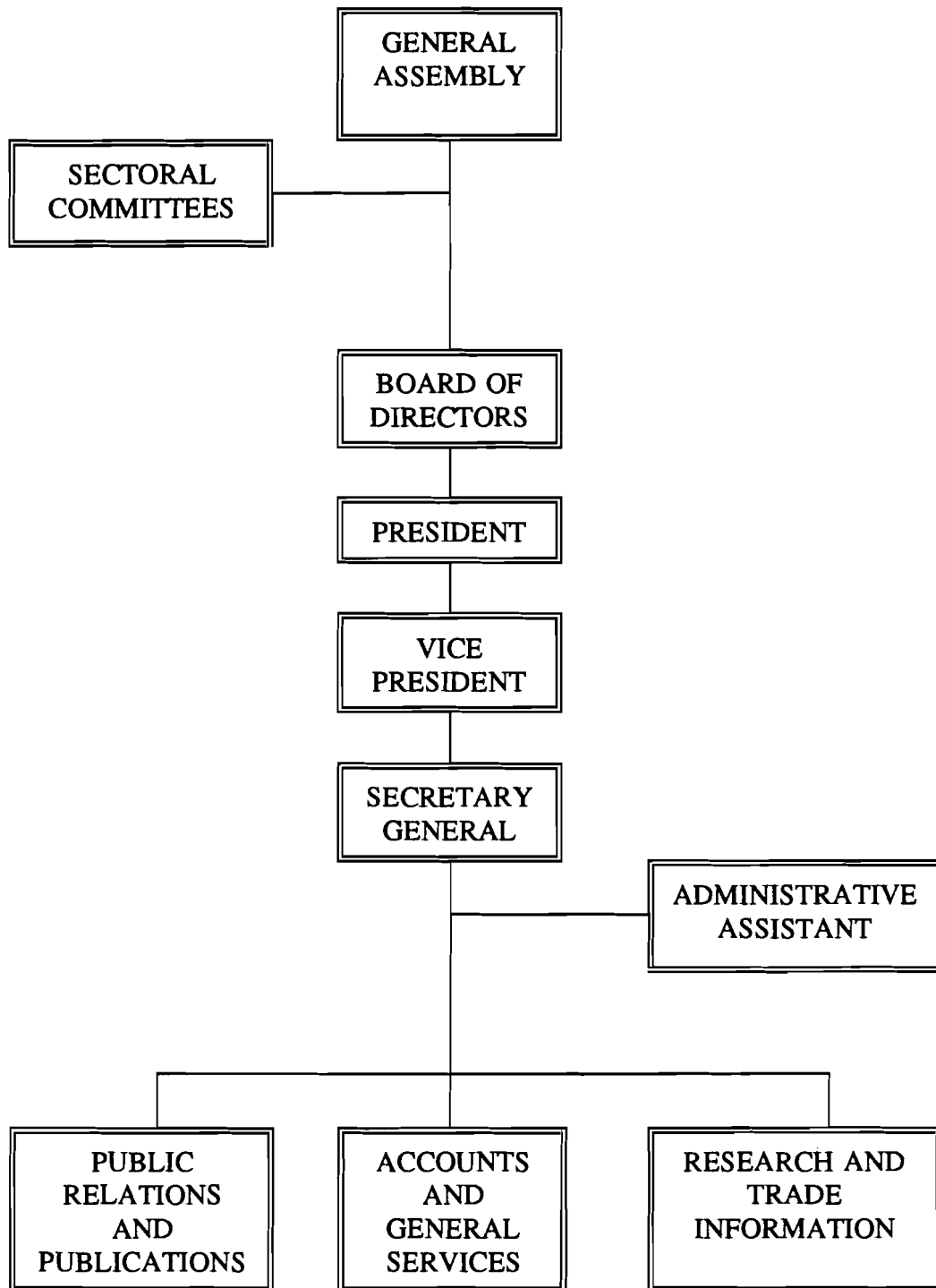
RECOMMENDATION 2: The Chamber should avoid over-structuring and compartmentalizing its internal functioning.

Although the current organizational structure is quite adequate, there is a temptation to over-structure and compartmentalize the Chamber's internal functioning. This should be avoided. Given the range of challenges facing the Chamber, and its relative inability to recruit and retain additional highly specialized staff, it should concentrate on building a team of versatile, well-trained professionals with overlapping competence. External training in the science of organizational management should be made available on a regular basis, starting with senior staff. Such courses are offered in the United States, Europe and elsewhere. Useful references of institutions offering appropriate courses has been provided directly to the Asmara Chamber of Commerce.

RECOMMENDATION 3: The Chamber should adopt the proposal to divide its membership into sectoral groupings.

A proposal to create sectoral groupings and sectoral committees mirroring government ministries has been mooted. This is essentially a good idea, although the temptation to over compartmentalize must be resisted. There is no need to mirror Government's ministerial structure, but Chamber members should group according to their own internal needs and preferences. Moreover, splintering the membership into too many small groupings could dilute their impact and may impede the Chamber's ability to reach consensus views. The creation of too many small membership groupings would also place additional burdens on the secretariat to service meetings, meet research needs, and produce reports.

Figure 2. Asmara Chamber of Commerce Organization Chart



2.4 MEMBERSHIP ISSUES

The membership of the Chamber was below 500 until mandatory membership was introduced in 1978, when all businesses except very small traders were required to join. Consequently, membership peaked at 7,182 in 1989 and stood at 6,588 in 1992.

Figure 3. Chamber Membership

YEAR	NUMBER
1971	384
1976	349
1978	2,152
1980	5,593
1982	6,110
1984	6,830
1989	7,182
1990	6,795
1991	6,269
1992	6,588

Due to the wide-scale nationalization of major industries initiated in 1974/75 the distinction between private sector and public sector virtually disappeared. Private sector initiative and business leadership were generally discouraged, and the heads of the largest companies were replaced by public sector appointees. Moreover, the autonomy of the executive of the Chamber was diluted by specific government appointments. For example, the president and all but four of the eleven executive positions had to be public enterprise representatives. This legacy is an important element of the current situation.

RECOMMENDATION 4: Given the specific context of post-war Eritrea, the Chamber should depart from the norm of not allowing public sector entities among its membership, but this should be a clearly limited, temporary measure.

Chambers of commerce in most countries fiercely guard their independence and avoid any undue influence from government or government-related agencies. In Eritrea, in order to gain the trust and confidence of members, chambers should have the ability to identify their own priorities and to represent the same to Government. Similarly, financial independence of chambers is critical to their autonomy, and dictates their ability to be an effective social partner in the development process.

Given prevailing economic conditions and the likelihood that privatization will be a lengthy process, it is conceivable that many large plants will remain in government hands despite its best efforts to divest. To exclude such a large proportion of the productive capacity of the economy from the chamber system would be to discount the largest potential contributors to the reconstruction and growth process. It would also have serious revenue implications. It is only practical, therefore, to consider what positive roles and what level of mutually beneficial involvement should be accorded to these entities.

One possibility is to establish a notional time frame (possibly five to seven years) during which public sector companies would remain members of the Chamber with all rights and privileges except the right to be members of the executive board. After five years, the number of public sector enterprises should be significantly reduced due to the progress of the privatization program, and this problem would be substantially resolved. In the event that the number of public sector companies remains high, these might be given the status of associate members with full access to all services and privileges but without the right to vote. Such a compromise would facilitate a cooperative approach to the massive task of private sector regeneration and could also avoid a sense of further dislocation within the productive sectors of the economy. It may also maintain, albeit temporarily, a useful link with the public sector in the implementation of essential groundwork.

RECOMMENDATION 5: The Chamber should create an affiliate membership for special organizations.

Affiliate membership for organizations such as small producer or trade associations should be considered as this establishes a link with potential future members. This category of membership need not discourage individual membership if it is properly structured.

First, the Chamber would be concerned only with common problems affecting the producer group as a whole. For example, an affiliate organization would identify and prioritize its group issues and problems and may even formulate basic responses and solutions which it wishes to present to the wider private sector, or to government, or to an external agency, through the Chamber.

Second, affiliate membership can be useful for attracting potential members who would not otherwise have a link with the chamber system, nor have any exposure to the potential benefits of individual membership.

Two specific categories of activity are possible. The first category would include services to the group such as identification and facilitation of technical training, assistance with joint sourcing or joint promotion, and sourcing of technical assistance for the association as a whole. In these areas, the Chamber would function primarily as a facilitator or broker, channeling assistance from external agencies which do not have the delivery capability to reach individual small producers. This activity could be revenue generating as the Chamber could charge service fees and offset some of its administrative costs.

A second category of Chamber activity would be more outward looking, that is, playing a representative role for the group as a whole in dealing with government and other external agencies in the design and implementation of policies and programs which affect different groups of producers. Examples include policies and regulations affecting imports of raw materials, trade facilitation, taxation and registration. Since it is neither desirable nor possible for all agencies to deal directly with several producer groups, a chamber with an established record could play a critical role as a conduit of information and services.

Producer associations may also develop in areas of the country where it is not feasible to have a full-fledged chamber; such associations may provide an essential link to the nearest chamber in the national system. Affiliate membership could thus make possible activity which would not be economically feasible on an individual basis but which could be addressed jointly. The critical element in structuring such a membership category is to encourage a two stage process:

- Small producers are made to feel that they are included in the mainstream of the private sector both through a strong and effective umbrella grouping and a recognized chamber offering tangible benefits.
- Successful micro producers who gain from this approach eventually need more individual services and readily can make the transition from membership in an affiliate organization to direct membership in the Chamber by paying the equivalent of a small business membership fee at the lower end of the fee scale.

Useful examples include National Development Foundations and Small Business Associations throughout the Caribbean region which deal exclusively with micro and small enterprises, providing services such as access to credit and counseling, short-term technical assistance and training. Similarly, Manufacturers Associations, themselves members of national chambers, service the very specific needs of their manufacturing members who are not generally inclined to join a national chamber if it is dominated by large firms in the retail and distributive trades.

These are examples of niche organizations which service a specific target group but are also affiliate members of their national chambers, working closely on broader issues such as program coordination, policy development and advocacy, external representation, research and external funding. Experience shows that creating this institutional bridge increases the leverage of the chamber in dealing with third parties, provides for natural upward mobility as enterprises grow, and generates net incremental revenue for national chambers while simultaneously widening the institutional base of the organization.

A reasonable fee structure needs to be established, possibly based on the internal membership of the affiliate organization. The affiliate members should probably be given voting rights although this is not essential. The greatest interest of affiliate organizations, however, will be for services. In creating such a membership category, the Chamber must be cautious not to overestimate its delivery capacity.

2.5 FINANCIAL ISSUES

2.5.1. Current Financial Position

The Chamber's financial position has been relatively favorable for the last several years owing to the fact of mandatory membership. The organization attempts a balanced budget for each financial year and has audited financial statements up to June 30, 1992. As presented in Annex B, current reserves stand at birr 621,371 (US\$107,500), down by 0.5% from 1991 levels because of a 1992 operating deficit of birr 21,040 (US\$3,640). By comparison, the Chamber realized a 1991 surplus of birr 45,111 (US\$7,800), increasing its accumulated reserves by 10.7%. Currently, the Chamber does not overtly seek to generate surpluses from its operations because it is a non-profit organization. Its ability to expand services and initiate future programs, however, is inevitably dependent on its revenue generating capacity.

Balance sheet figures reflect adequate provisions for liabilities including a provident fund for employees. Provisions for deferred liabilities such as severance pay are also reflected in the audited accounts. Accounts receivable at year-end were not material at less than 4% of income, and less than 2% of current assets. Despite mandatory membership the Chamber observes the prudent convention of recognizing subscriptions on a cash basis. Its asset position is therefore realistic and does not overstate its financial position by taking subscription arrears into accounts receivable.

RECOMMENDATION 6: The Chamber should continue its program to bring its accounts and associated financial records into its computer system.

Full computerization will facilitate more timely and improved management information flows at a time when the finances of the Chamber will require close monitoring due to changes in its basic membership and general operations. The existing computer facilities, comprising two personal computers and a single printer, are inadequate for this purpose and should be augmented. Some additional software in the form of an appropriate accounting package should be acquired. A local expert could assist the Chamber carry out an assessment of hardware and software requirements.

2.5.2. Recent Financial Performance

As shown in Annex C, membership subscriptions accounted for 93% of total income in 1992. Allowing for accrued interest income of birr 13,263 (US\$2,300) which was not recognized in the accounts, this figure adjusts to 90%, still an increase from 87% in 1991 and 86% in 1990.

RECOMMENDATION 7: The Chamber should seek to reduce its high dependence on subscription income.

A target benchmark of 80% for subscription revenue, substantially less than the current 90%, should be set to give the Chamber some additional flexibility in program design without placing any incremental subscription burden on members. This is especially important because its membership base may well be eroded by the attrition of small members following the issuance of the new proclamation.

Achieving this target would mean that the Chamber could generate a minimum 20% of its income from its asset base of birr 721,440 (US\$125,000), which is currently underemployed. For example, the Chamber holds about birr 606,000 (US\$105,000) in the form of savings accounts and fixed deposits which earn a relatively low yield of 4% per year. If the Chamber were able to earn a return on total assets of 10%, it would realize over birr 72,000 (US\$12,500). This is equivalent to some 20% of total 1992 income.

Similarly, based on 1992 figures, if the Chamber set a reserve target equivalent to one year's operating expenses to be held as unencumbered reserves, this would release some birr 234,000 (US\$40,500) for investment in new revenue generating projects at a nominal opportunity cost of 4% annually. Allowing for inflation, the real cost of this capital would be even lower.

An area for investment of surplus capital could be in the development of small business computer software packages tailored for the Eritrean business context. One example might be the adaptation of an accounting package translated from English which can be marketed and sold through the Chamber's existing network.

Yet another option might be the purchase of shares in a new business venture, pooling much needed investment capital. Even in the context of post-war Eritrea, income and capital growth opportunities exist in the areas of residential and commercial construction, distribution of petroleum products, and the general distributive trades. On its own premises the Chamber could also invest in equipment, physical improvements and renovations which would significantly improve the return on the physical capital which it already owns.

Possibly the most important benefit of such an approach would be the internal stimulation it would bring to the organization in the development of new ideas and possibilities, and the signal which it would send to the membership regarding the dynamism of the organization. The involvement of staff in the identification and elaboration of new projects could also be a major catalyst.

2.5.3. Financial Prospects

The major factor affecting the Chamber's financial prospects in the short to medium term is the anticipated change from mandatory membership to the more liberal system of voluntary membership. The new proclamation is expected to prescribe that membership in city chambers is optional, but that larger firms will automatically become members unless they expressly decline. Depending on what size firms are required to join initially, the potential revenue reduction because of lost membership, could be between birr 125,000 (US\$21,600) and birr 140,000 (US\$24,200).

This formulation suggests that all but the smallest of businesses ought to become and remain members of their respective city chambers. While this spirit might prevail during the early post-war period, it is inevitable that the membership decision will be made ultimately by individual businesses on a cost-benefit basis. Under the proposed formulation, therefore, the Chamber will not enjoy a guaranteed membership base. The Chamber may also lose the valuable leverage exercised in conjunction with the which ensured that membership was renewed along with annual trade licenses. Finally, this also has implications related to the cost of collecting membership dues.

RECOMMENDATION 8: The Chamber should revise and simplify its fee structure.

As shown in Annex D, the Chamber's fee structure currently has no less than 13 subscription levels ranging from a maximum of birr 600 (US\$104) to a minimum of birr 20 (US\$3.50). The top rate could be immediately revised upward to a minimum of birr 1,000 (US\$173), with a target of reaching birr 3,000 (US\$520) within five years. Similar adjustments should be made for other categories and a minimum rate established of not less than birr 150 (US\$26). The Chamber could also introduce categories to close the gap between its two top rates.

For purposes of illustration only, Figure 4 presents an alternative fee structure and demonstrates the potential for both simplification and increased revenue.

Figure 4. Potential Gains from Simplification of Subscription Categories
(for illustration purposes only)

Former Bands and Rate	New Band and Rate	Number of Members Each	Net Rate Increase	Net Yield	Total Revenue New Band
A:600 B:500 C:400	A= birr 1,000	A:22 B:12 C:23	400 500 600	8,800 6,000 13,800	57x1,000 = birr 57,000
D:300 E:200	B=birr 500	D:25 E:62	200 300	5,000 18,600	87x500 = birr 43,500
F:150	C=birr 250	C:239	100	23,900	239x250 = birr 59,750
All Other Bands	D=birr 150	2,280	----	139,154	2,280x150 birr 342,000
Total	4 Bands	2,663	----	birr 215,254	birr 502,250

- The first three bands (A, B, C) can be condensed into one. A fee of birr 1,000 (US\$173) would be charged for all companies with capital over birr 1,000,000 (US\$1,730). This would result in 57 members paying birr 1,000 (US\$173) each and increase income by some birr 28,600 (US\$4,950).
- Combining bands D and E and charging birr 500 (US\$87), would yield a further birr 23,600 (US\$4,085).
- Adjusting the fee for band F from birr 150 (US\$26) to birr 250 (US\$43) would increase revenues some birr 23,900 (US\$4,135). Charging all remaining members a minimum rate of birr 150 (US\$26) would add birr 139,154 (US\$24,100).

While other formulations should be considered in the context of the market, total revenue with this simplified four band structure would exceed birr 500,000 (US\$86,500); this would exceed 1993 projected expenditure by more than birr 60,000 (US\$10,380). The above rates compare favorably with prevailing rates in Addis Ababa.

2.6 SERVICE ISSUES

Another source to which the Chamber should look to increase its revenues is fees for the services it provides. Even though the Chamber may not want to generate operational surpluses, it should seek to improve its service income by levying appropriate user charges on a cost-plus basis. Many of its existing charges appear minimal and may not reflect the real cost of provision.

RECOMMENDATION 9: The Chamber should perform services for the Government on a cost plus or fee basis.

This is clearly a matter which would have to be explored with Government, but it would be a far healthier relationship than were the Chamber to become dependent on subventions from the public sector. Such an arrangement would also be consistent with the considerable responsibility which the Chamber will be expected to assume in the development of the business sector to support national reconstruction.

Ready examples of such private sector/public sector contracting are to be found around the world where chambers establish, own or manage entire institutions normally run by governments. For example, in Guadeloupe, the Pointe-a-Pitre Chamber operates a commercial trades and language center to which government makes payments on a per capita basis.

Similarly, the Martinique Chamber manages the Fort-de-France seaport and the main international airport. Some chambers in Eastern European countries manage export promotion agencies and administer and receive the proceeds of specific trade related taxes. Still other chambers in developing countries manage export zones and industrial parks, while the U.S. Chamber of Commerce manages a small component of AID resources targeted at the private sector in recipient countries.

There is already a precedent for the Government to transfer to the Chamber certain administrative functions related to the commercial sector. These include registering companies, patents and trademarks and the issuing of some categories of business licenses. Similarly, the authority exists for the Chamber to charge service fees; according to its Financial Administration Manual, it can issue certificates of origin for export purposes for which it charges a fee of birr 20 (US\$3.50). The Chamber should alter the fee so that it varies at a fixed percentage of the invoice value of each shipment (possibly 0.01% to 0.25%). A similar revision may be applied to the certification and authentication of invoices and other trade related documents. Partial waivers or discounts of service fees should be considered for member, as opposed to non-member, clients. This important benefit would be an incentive to attract new members.

RECOMMENDATION 10: The Chamber should operate the former Asmara Expo facility as an income earning activity.

This facility was originally created through the joint efforts of the municipality of Asmara, the Asmara Chamber of Commerce and other related institutions. The reopening of the site as a permanent exposition of Eritrean goods and services should be the subject of further study and dialogue with Government. In keeping with the need to revitalize the industrial and export sectors, it may be appropriate for the Chamber to assume the management of the Expo site on behalf of Government, the city, its private sector members, or on behalf of the remaining original shareholders.

The site can also function as a location for local, regional and international trade fairs, all of which could be revenue generating. Even for this use, the site could remain accessible for other activities, including social or community based events.

RECOMMENDATION 11: The Chamber should develop programs to coordinate and deliver training on a fee-for-service basis.

The market for business training and education offers the Chamber the opportunity to generate revenue, improve its visibility in the general community and improve its leverage with the public sector. The private business sector is dominated by many small entrepreneurs and single proprietorships. Many are operating marginal businesses and utilizing outmoded business practices. Modern business skills need to be acquired, particularly for small business management and the pooling of financial resources. Similarly, the public sector enterprises which dominate Chamber membership and the commercial life of the country are also in great need of training for line staff, middle management, and senior management. Demand for such services is likely to increase as the productive sectors of the economy are revitalized and as new enterprises emerge.

One approach to this considerable market would be to design and implement, along with government, a program of entry level, supervisory and middle management training for employees in key sectors, particularly industry. External funding could be sought in support of this vital aspect of reconstruction and employment generation, and justified as the human resource development component of various otherwise unrelated programs.

Specifically within the private sector, even the promotion of basic accounting and record keeping skills would be invaluable. This would also have positive spin-off effects in the public sector by improving statistical, administrative, and policy making functions. Throughout the business community, there is a need for business education and training at all levels. This need will become more acute as the economy recovers and as government requirements for accurate reporting and record keeping begin to affect small businesses.

The training could be implemented independently, but preferably it would be in conjunction with the University of Asmara. Although well-placed as a delivery institution, the Chamber does not now have the capacity or the experience to carry out the base work for such a program. Demand estimation, course design and costing, and preparation of trainers and training materials are all areas for possible external technical assistance and funding.

RECOMMENDATION 12: The Chamber should rationalize its existing publications into a quarterly journal and a more frequently issued newsletter.

Attempts are being made to improve the format and content of the Chamber's existing publications, as well as to compile information for an updated members directory. The Chamber should publish a quarterly journal covering major economic and commercial issues. The articles should focus on matters having medium to long-term news value. This publication should be the principal mouthpiece of the Chamber, which should ensure its widest possible circulation in the private sector, public sector, overseas missions, and to international organizations. The journal may be free to members, and its production costs, including staff time, financed from advertisement revenues. Additional revenue may be raised by selling subscriptions to non-members. Wherever possible, advertisements should be secured on an annual contract basis.

In order to achieve this, the Chamber would require additional computer equipment including software. Among the more frequently used programs are "Pagemaker" for desktop publishing on either the IBM compatible or Apple Macintosh Hardware; "Quark Express" for Macintosh and Microsoft Word available in both formats.

Additional staff training would also be necessary and should include as many staff as possible since information dissemination involves most of the Chamber's departments. Most software packages contain tutorials on their usage and it is expected that additional training and orientation can be obtained from local computer firms, and possibly from private and public printing operations.

In terms of content, substantial information can be found in international publications some of which the Chamber already has subscriptions. Examples include Courier-ACP/EEC, The African Development Bank quarterly publications and occasional papers, the Export Courier, The Economist, International Trade Forum, Business Opportunities, Finance & Development-IMF/IBRD.

Additionally, professionals from business and academic circles could be asked to produce serial articles on specific themes such as trade, finance, technology, etc. Regional institutions such as the African Development Bank also have extensive documentation centers which can be tapped for specific information and possibly for technical assistance in the development of modern information services.

The journal should be supplemented by a more frequent monthly or biweekly newsletter containing short, easily read items with information on matters and events of immediate interest and short-term news value.

2.7 HUMAN RESOURCES AND INSTITUTIONAL DEVELOPMENT

The Chamber has a basic core staff with adequate academic training. Seven of the staff of 23 (there are two vacant positions) have college degrees, and all departments are headed by personnel with six or more years of experience at the Chamber.

RECOMMENDATION 13: The Chamber should pursue an aggressive program of staff development and training.

The lengthy tenure of the staff is undoubtedly related to the lack of other opportunities. It is likely, however, that new opportunities will now begin to arise. To retain its best qualified staff, the Chamber should endeavor to offer professional training and advancement opportunities. This is especially so in the light of recent reductions in compensation differentials caused by salary revisions in the public and private sector. The Chamber could work with the University of Asmara to develop appropriate short-term training courses, or it could subvent the cost of post-graduate course work for its senior staff. Other training could be provided elsewhere in the region at the various management schools; any resources which can be mobilized for short-term training (up to 12 weeks) overseas would be a valuable investment. Specific opportunities can be also identified through international institutions; such training information has been provided directly to the Asmara Chamber of Commerce.

Although many of the Chamber's current staff have a good academic qualifications, there is a great need for specialized training aided by the introduction of modern methodologies and technology. Three areas of the Chamber's operations lend themselves immediately for consideration: accounts, administration and information management, in which manual applications currently consume much staff time and limit productive output.

Moreover, because of the isolation which the Chamber has suffered, there is great need for interaction and information sharing with other chambers of commerce. It would therefore be valuable to establish links with neighboring chambers and to seek an twinning relationship with a chamber in Europe or the United States.

In the Caribbean region, the Network of Caribbean Organization Executives provides such a forum for professional development and training of executives of chambers, professional organizations, hotel associations and the like. It may therefore be useful for the Chamber to pursue the formation of such a group in its own region and to use the grouping to

attract appropriate training and expertise. In some cases, it may also be more possible to attract donor funding for a regional program than for a national one.

RECOMMENDATION 14: The Chamber should endeavor to link with overseas organizations to benefit from "peer-to-peer" technical assistance.

After decades of conflict and occupation, Eritrea and most of its organizations have suffered isolation from the rest of the world. In many areas of Chamber activity, but particularly with respect to human resource development, there is a great need for international exposure and experience. The twinning of the Asmara Chamber with a U.S. chamber and the provision of travel/study grants to facilitate contact could be extremely valuable and should be pursued. A complementary program attracting outside expertise to Eritrea on short- and medium-term training assignments could also be extremely beneficial.

2.8 PHYSICAL FACILITIES

The Chamber's basic physical facilities are adequate for the short term, although some areas are in severe need of modernization. The telephone system, for example, is archaic and modern fax facilities are required. The existing product display in the main hall on the lower level is limited and poorly lit. This could be readily improved with the identification of modern display, lighting and labelling techniques and exposure to more innovative equipment currently available.

The Chamber enjoys spacious premises of its own which are in a satisfactory location in Asmara. A proposal to construct a product exhibition wing on site should be carefully analyzed in light of the Chamber's finances and other priority projects. Should this project be justified and chosen for implementation, external assistance could readily and significantly help to improve the layout, effectiveness and functioning of associated training. The technical assistance for the production of related promotional material might also have significant impact.

The Chamber's library, though well organized, is rudimentary and requires an improved selection of trade directories, journals, and publications. Some directories date back to 1987, and need replacement. Several European and U.S. chambers change their *Thomas Registers* on a regular basis and would probably donate a two-year old series to the Chamber. Computer, microfiche, video and other audio-visual equipment are generally needed for proper functioning.

Additional relevant publications, particularly export directories, can best be obtained by contacting other chambers through the International Chamber of Commerce in Paris. The UNCTAD/GATT International Trade Center in Geneva is yet another excellent source of

trade related information which can be easily tapped. UNCTAD also offers a number of international training opportunities from which the Asmara Chamber could benefit. Further details have been provided directly to the Chamber.

The Chamber's library and research departments can also collaborate on the dissemination of vital information aimed at business facilitation. Investment both domestic and foreign are critical to the growth of the economy. The Chamber can play a vital role in this process by preparing saleable documentation on the following sample topics: Trade Licenses and Certificates; Exporters/Importers Guide; Fiscal Incentives and Corporate Taxation; Business Finance and Sources of Assistance. Support for the initial research and production materials and equipment could form one component of assistance.

2.9 OTHER CITY CHAMBERS

Until 1982, the Asmara Chamber maintained branches in three other provincial capitals: Massawa, Mendefera, and Keren. Together these accounted for only 12% of total membership. The proclamation re-establishing city chambers is expected to provide for the establishment of autonomous entities restricted to their own geographical jurisdictions. As such the branch system will no longer be applicable. Nevertheless, responsibility may well fall to the Asmara Chamber to play a vital role in the formation and initial guidance of these bodies.

RECOMMENDATION 15: The former branch towns should be the first city chambers to be re-established.

The primary reason for focusing on the former branch towns is the expectation that there may be some residual of the former chamber organization there. Given distance and communication problems, the task of establishing these bodies will be considerable in the absence of some tangible and immediate incentive. An outreach business education program should be designed and supported to encourage private sector organization in these areas. A business extension program supported by external expertise and utilizing local delivery capacity would also be very appropriate.

A second phase of chamber formation could include the other provincial capitals. The pace and sequence of this effort will be determined by practical considerations of available resources including vehicles and manpower. Considering the Chamber's uncertain financial position and the prevailing conditions in Asmara and the target areas, it is difficult to envisage the Asmara Chamber undertaking this program without external support.

RECOMMENDATION 16: The Chamber should begin feasibility planning for a national, small enterprise development program.

This should be implemented in conjunction with the development of the city chambers, probably after testing in Asmara. A program to support the establishment and initial operation of small enterprises would provide a base for chamber development in other cities. More importantly, it would support the priority needs of the private sector and promote broad participation in the development of the country. This could be a strictly instructional program or it could combine the attributes of a small business credit and counselling program aimed specifically at microenterprises which currently lack organization and representation.

2.10 AN ERITREA CHAMBER OF COMMERCE

Eritrea's future depends on export led growth because of the limited potential size of its domestic market and the need to generate foreign exchange. The formation of an Eritrea Chamber of Commerce as an umbrella organization of chambers, with export promotion as a primary, but not exclusive, objective would be a positive development. It would also be consistent with Government's policies for decentralization and balanced regional growth.

RECOMMENDATION 17: An independent Eritrea Chamber should be formed, but it should rely on a close linkage with the Asmara Chamber.

It would prove physically difficult, if not financially impossible, for the Asmara Chamber to service the entire private sector or provide direct support to other city chambers from its base in Asmara. A separate Eritrea Chamber, with its own identity and minimum core staff, would be able to pool resources and coordinate efforts in a cost effective way. It could offer vital services for which its constituent members will value and eventually be willing to pay.

For efficiency, the Eritrea Chamber should have its headquarters co-located at the Asmara Chamber. This offers two distinct advantages. First, it would allow the Asmara Chamber to provide cost effective services already available, thus avoiding duplication. Second, it would encourage the development of excellence in certain critical areas such as trade research and information dissemination. For example, direct computer on-line facilities or linked to a World Trade Center affiliate could be established on a cost sharing basis.

It is also likely that the Eritrea Chamber, with its national outlook, will play a major role in the determination of policy together with Government. In this regard, it will serve to encourage and shape consensus at the national level. Constituent chambers representing a range of geographical areas, economic activities and sectoral interests will thus seek common positions within their own forum at the national level before approaching third parties.

The national chamber will also help to identify and resolve sectoral issues and problems which may cross provincial boundaries. Moreover, as members of a common umbrella grouping, provincial or city chambers should operate more confidently within their own jurisdictions, knowing that there is institutional oversight at the national level.

The establishment of the national chamber will also facilitate resource pooling at the national level and perform a clearinghouse function for vital information and services. It should also be possible for a national chamber to serve as a central point for international contacts and to package and disseminate certain institutional development programs and projects which may be addressed at the national level.

3. INSTITUTIONAL DEVELOPMENT AND ASSISTANCE PRIORITIES

3.1 INTRODUCTION

The preceding analyses examined the internal organizational and financial structure of the Asmara Chamber of Commerce and the public policy and private sector environments in which it operates. In addition, and no less important, the potential for nurturing new chambers in other Eritrean cities and creating a national chamber system were examined, albeit in less detail given the limited data. A series of recommendations in each area were presented, and allusions to possible needs for external support were made. This final chapter synthesizes the conclusions and recommendations in a structure that will enable the Chamber to set priorities and organize its efforts most efficiently.

The event that will set all other actions in motion, at least officially, will be the issuing of the new proclamation by the Government. This will establish the framework for the Asmara Chamber's operations and the external structure of the national chamber network. The Chamber has rightly devoted considerable effort to working with the Government on defining the legal and institutional arrangements, and it should maintain that working relationship as the need for fine tuning will undoubtedly arise.

Until the proclamation is formally adopted, all activities related to the restructuring of the Chamber or establishing the national network will, of necessity, remain tentative. Nonetheless, the essential elements of the draft proclamation are well known and not likely to change significantly. Although the Chamber cannot adopt a new membership structure or convene the general assembly to elect a new board of directors, its staff can be proceeding with the requisite planning for activities that will be required. The proposals below are offered on the assumption that the proclamation will be issued presently and in the anticipated form.

3.2 STRUCTURAL ISSUES

The Chamber's immediate priority should be on rationalizing its internal structures related to membership, staff organization, and, particularly, financial operations and stability. (See Figure 5.) The Chamber has the internal capability for preparing, considering and implementing the various alternatives, based on their financial merit and the organization's long-term objectives. The planning and operational documents should be ready for immediate review and final adoption by the appropriate body (the executive committee or general assembly) as soon as they convene. The membership structure and associated fee schedule should receive first attention, and the structural changes should be in place within six months of their approval.

Figure 5. Recommendations: Organizational and Membership Issues

1. The new proclamation should be adopted as soon as possible to resolve the current ambiguous status of the Chamber, immediately after which the Chamber should convene the general assembly.
2. The Chamber should avoid over-structuring and compartmentalizing its internal functioning.
3. The Chamber should adopt the proposal to divide its membership into sectoral groupings.
4. Given the specific context of post-war Eritrea, the Chamber should depart from the norm of not allowing public sector entities among its membership, but this should be a clearly limited, temporary measure.
5. The Chamber should create an affiliate membership for special organizations.

Timing: Immediate action upon issuance of proclamation.

External support: None required.

Implementation of the financial restructuring, particularly changes in the subscription schedule and introducing or increasing fees for service (Figure 6), may be more controversial than the organizational and structural changes, but should be pursued with vigor in the interests of the sustainability of the Chamber as a vital institution in the reformed market economy. The new subscription schedule should be implemented immediately upon Chamber approval.

The computerization of the financial records is in process and should be completed within a matter of months. This will require some external support for computer hardware and software to augment the existing two personal computers and one printer. Procurement of any such equipment should be part of an overall office modernization program that would also incorporate desktop publishing capability and other communications and office equipment. Staff should begin immediately to prepare modernization plans for discussion with external sources, but a comprehensive needs assessment would be essential.

Figure 6. Recommendations: Financial Structure

6. The Chamber should continue its program to bring its accounts and associated financial records into its computer system.

Timing: Immediate and continuing.

External Support: Assistance for hardware and software procurement.

7. The Chamber should seek to reduce its high dependence on subscription income.

Timing: Completion of financial plan and service strategy within six months.

External Support: None required.

8. The Chamber should revise and simplify its fee structure.

Timing: Immediate.

External Support: None required.

3.3 SERVICE ISSUES

The expansion and strengthening of its service programs would not only strengthen the Chamber's revenue base but, more importantly, it would establish the Chamber as a credible institution capable of offering commercially useful and desired services to member businesses. (See Figure 7.) To meet these needs, Chamber staff should complete the following tasks within the next twelve months:

- design a training plan;
- develop a preliminary feasibility study of the potential demand for the use of the Expo facility by private and public sector entities; and
- publish the first quarterly journal and initiate the biweekly newsletter.

With regard to a training plan, discussions with Government and the University of Asmara should be initiated to determine the kinds of business and management training that would be appropriate and that Government would be willing to finance. Parallel discussions with the business community should be undertaken as part of an overall plan to develop a training program. The training effort should consider incorporating a small business development program to assist those enterprises which comprise much of Eritrea's commerce.

With respect to the publications program, the staff should begin immediately to design and plan for the journal and newsletter. The first issue of the former should be planned for publication by late 1994. External assistance may ultimately be required for the acquisition of desktop publishing software and hardware and associated training, but the first issues could be produced with less sophisticated technology. The existence of the first few issues would be a strong selling point in the search for assistance. With the acquisition of the equipment, the Chamber could ultimately design and produce materials for its own programs as well as for outside clients: training materials, short informative pamphlets, brochures, procedure manuals for distribution within the private sector.

Figure 7. Recommendations: Service Delivery

9. The Chamber should perform services for the Government on a cost plus or fee basis.

Timing: Completion of strategy in 12 months.
External Support: None required.
10. The Chamber should operate the former Asmara Expo facility as an income earning activity.

Timing: Completion of preliminary feasibility study in 12 months.
External Support: Possible short-term technical assistance for final feasibility and business plan.
11. The Chamber should develop programs to coordinate and deliver training on a fee-for-service basis.

Timing: Completion of strategy in 12 months.
External Support: Possible short-term expert technical assistance.
12. The Chamber should rationalize its existing publications into a quarterly journal and a more frequently issued newsletter.

Timing: Publications program in place within 12 months.
External Support: Assistance for hardware and software procurement.

3.4 HUMAN RESOURCES AND INSTITUTIONAL DEVELOPMENT

The recommendations in this area (Figure 8) suggest developing linkages with the University of Asmara for the training of Chamber staff, probably in conjunction with the

Chamber's outreach training programs. Obviously, the program should bring in staff of other city chambers once they are formed. A staff training and development plan should be designed within six months, but final design will require agreements with the University and others, which could take up to one year.

Both staff and institutional development would be advanced through linkages with chambers in other countries. This would involve representatives of Chamber membership and staff participating in study and training tours, as well as providing for exchange visits to Eritrea, including by experts who could be tapped to conduct training courses as part of the continuing Chamber training program. Chamber staff should develop a proposal within six months.

Figure 8. Recommendations: Staff and Institutional Development

13. The Chamber should pursue an aggressive program of staff development and training.

Timing: Outline of strategy in six months; full plan within one year.
External Support: Limited assistance for overseas short courses or study tours.
14. The Chamber should endeavor to link with overseas organizations to benefit from "peer-to-peer" technical assistance.

Timing: Completion of proposal in six months.
External Support: Assistance for overseas tours, exchange visits, and short-term technical experts.

3.5 CITY CHAMBERS AND THE NATIONAL NETWORK

Preliminary steps towards developing a national network of chambers can be initiated immediately, but not to the detriment of the full agenda already identified for the next year. Meetings with business representatives in other cities and towns can be held to determine the interest and various options for local organization. (See Figure 9.) If local interest is high and the capability exists, organization could be started, but they should not drain the Asmara Chamber's limited financial, material or staff resources.

Ultimately, the establishment of a national chamber system is a major undertaking that will require significant external support. The rational development of a program would involve business surveys and needs assessments in target towns, preliminary operational plans for local chambers, and a carefully structured organizational and financial plan for the Eritrea Chamber.

Figure 9. Recommendations: Regarding a National Chamber System

15. The former branch towns should be the first city chambers to be re-established.

Timing: Informal meetings in Massawa, Mendefera, Keren within next 12 months.

External Support: None.

16. The Chamber should begin feasibility planning for a national, small enterprise development program.

Timing: Initial probes within 12 months; implementation within 24 months.

External Support: Recurrent expert technical assistance and other resources will be required.

17. An independent Eritrea Chamber should be formed, but it should rely on a close linkage with the Asmara Chamber.

Timing: Informal discussions during next six months; tentative proposal within 18 months.

External Support: Recurrent expert technical assistance and financial support for facilities.

3.6 NEEDS FOR EXTERNAL SUPPORT

Most of the important tasks over the next year are matters that the Asmara Chamber and other Eritrean institutions can effectively accomplish without assistance. The staff and members are sufficiently experienced and knowledgeable to prepare organizational designs, financial plans and program strategies. A number of areas for assistance have been identified, however, and even in those matters the Chamber could accomplish on its own, they would benefit from outside advice.

To some extent external consultation gives validity and credibility to the Chamber's own ideas; and to some extent, it would generate new ideas. In addition, a number of items have been identified for which external funding for procurement of equipment and travel would be required:

- Recurrent short-term technical assistance on organizational structure, finances and national chamber networks.
- Recurrent short-term technical support for training design and implementation.

- Procurement of office modernization equipment and computer software for financial management and desktop publishing.
- Travel assistance for visits to chambers in other countries, exchange visits of experts to Eritrea, and overseas study tours.

The Chamber should begin immediately to develop its program and operations plan, which should serve as a basis for discussion with possible sources of outside support. It should present a comprehensive program for institutional development and program expansion, showing precisely the kinds of activities to be undertaken, the schedule for implementation, and the need for external assistance. The material in this report provides the Chamber with a substantial start on constructing such a plan.

ANNEX A. NUMBER OF ESTABLISHMENTS BY INDUSTRIAL GROUP

Industrial Group	Private		Public		Total	
	Establishments	Employees	Establishments	Employees	Total Establishments	Total Employees
FOOD MANUFACTURE						
Manufacture of edible oil extract	15	61	1	109	16	170
Manufacture of bakery products	78	600	1	86	79	686
Grain mill products	352	780	2	424	354	1,204
Dairy product	1	10	-	-	1	20
Manufacture food products	3	24	1	298	4	322
Sugar factories, refineries and confectionery	1	6	1	66	2	72
BEVERAGE						
Wine industries	4	29	1	82	5	111
Malt liquors and malt	-	-	1	599	1	599
Soft drinks and carbonated water industries	4	156	1	221	5	377
TOBACCO	-	-	2	345	2	345
TEXTILES						
Spinning, weaving and finishing of textiles	99	1,685	4	4,014	103	5,699
Cordage, rope and twine	-	-	1	632	1	632
TANNERIES AND LEATHER FINISHING	8	95	2	304	10	399
MANUFACTURE OF (LEATHER) FOOTWEAR	20	417	3	598	23	1,019
MANUFACTURE OF FURNITURE AND FIXTURE	109	4,416	3	195	111	611
PAPER AND PAPER PRODUCTS	3	9	1	125	4	134

ANNEX A. NUMBER OF ESTABLISHMENTS BY INDUSTRIAL GROUP (continued)

Industrial Group	Private		Public		Total	
	Establishments	Employees	Establishments	Employees	Total Establishments	Total Employees
PRINTING, PUBLISHING AND ALLIED INDUSTRIES	12	63	2	231	14	294
MANUFACTURE OF BASIC INDUSTRIAL CHEMICALS EXCEPT FERTILIZER	8	176	2	403	10	579
MANUFACTURE OF OTHER CHEMICALS: PAINTS, VARNISH AND LIQUORS	4	35	-	-	4	35
MANUFACTURE OF COSMETICS, PERFUME AND OTHER CLEANING PREPARATIONS	24	266	2	249	26	511
MANUFACTURE OF RUBBER PRODUCTS	2	18	-	-	2	18
MANUFACTURE OF NON-METALLIC MINERAL PRODUCTS	6	46	1	347	7	420
Manufacture of structural clay products	5	98	1	442	6	140
Manufacture of cement, lime, plaster	30	297	2	255	32	552
Manufacture of other non-metallic mineral products	3	50	-	-	3	50
MANUFACTURE OF FABRICATED METAL PRODUCTS EXCEPT MACHINERY AND EQUIPMENT						
Manufacture of cutlery, hand tools and general hard work	2	8	3	449	5	457
Manufacture of structural metal products	38	206	-	-	38	206

ANNEX A. NUMBER OF ESTABLISHMENTS BY INDUSTRIAL GROUP (continued)

Industrial Group	Private		Public		Total	
	Establishments	Employees	Establishments	Employees	Total Establishments	Total Employees
Manufacture of fabricated metal products except machinery and equipment	-	-	1	194	1	194
MANUFACTURE OF ELECTRIC MACHINERY, APPARATI, APPLIANCE AND SUPPLIES	5	21	-	-	5	21
ASSEMBLY OF MOTOR VEHICLES	-	-	1	106	1	106
TOTAL	836	5,572	40	10,307	876	15,969

ANNEX B. ASMARA CHAMBER OF COMMERCE BALANCES, 1991-1992

	30 June 1992 Birr	7 July 1991 Birr
FIXED ASSETS	13,304	18,821
CURRENT ASSETS		
Stock	15,425	-
Debtors	12,317	46,958
Cash at bank	<u>692,698</u>	<u>603,477</u>
	720,440	650,435
CURRENT LIABILITIES		
Creditors	(84,283)	(44,707)
Provident fund	(224,242)	(234,166)
Less: Bank saving accounts	<u>224,242</u>	<u>(234,166)</u>
	(84,283)	(44,707)
NET CURRENT ASSETS	<u>636,157</u>	<u>605,728</u>
	649,461	624,549
DEFERRED LIABILITIES		
Provision for severance pay	<u>(29,090)</u>	<u>-</u>
BALANCE	<u>620,371</u>	<u>624,549</u>

**ANNEX C. ASMARA CHAMBER OF COMMERCE STATEMENT OF INCOME AND
EXPENDITURE, 1991-1992**

	8 July 1991- 30 June 1992 Birr	Year ended 7 July 1991 Birr
INCOME		
Membership subscriptions	341,581	299,825
Bank interest	-	25,323
Duplicating service	7,736	5,599
Typing school fees	7,960	6,200
Sale of transport service request forms	3,529	-
Telex service	-	217
Sale of publications	845	-
Sundries	<u>4,555</u>	<u>4,372</u>
	366,306	341,536
EXPENDITURE		
Salaries and allowances	188,259	196,219
Provision for annual leave pay	40,453	-
Provision for severance pay	29,080	-
Printing and stationery	11,060	24,170
Donation	60,002	-
Provident fund	17,863	18,064
Insurance	11,549	12,295
Travelling and per diem	1,494	8,169
Repair and maintenance	2,578	4,027
Postage, telephone and telegram	3,022	5,654

ANNEX C. ASMARA CHAMBER OF COMMERCE STATEMENT OF INCOME AND EXPENDITURE, 1991-1992 (continued)

	8 July 1991- 30 June 1992 Birr	Year ended 7 July 1991 Birr
Legal fees	65	2,234
Entertainment	2,985	2,515
Uniforms	3,089	3,987
Audit fee	3,000	5,000
Books and periodicals	678	878
Fuel	1,371	880
Long service gifts to staff		1,000
Electricity and water	675	294
Tuition fees	100	371
Cleaning and utensils	199	626
Depreciation	5,590	7,650
Miscellaneous	<u>3,767</u>	<u>2,392</u>
	<u>387,346</u>	<u>296,425</u>
(DEFICIENCY)/EXCESS OF INCOME OVER EXPENDITURE	(21,040)	45,111

ANNEX D. ASMARA CHAMBER OF COMMERCE MEMBERSHIP FEES (in birr)

ASMARA				
<u>1. CAPITAL</u>		REGISTRATION FEE	MEMBERSHIP FEE	TOTAL
A	30,000,000 and above	70	600.00	670
B	5,000,000 - 29,999,999	60	500.00	560
C	1,000,000 - 4,999,999	50	400.00	450
D	500,000 - 999,999	40	300.00	340
E	200,000 - 499,999	30	200.00	230
F	50,000 - 199,999	25	150.00	175
G	20,000 - 49,999	22.50	125.00	147.50
H	10,000 - 19,999	20	100.00	120
I	5,000 - 9,999	16	60.00	76
J	1,000 - 4,999	13.50	35.00	48.50
K	Below 1,000	12.50	25.00	37.50
<u>2. TRUCK OWNERS</u>		REGISTRATION FEE	MEMBERSHIP FEE	TOTAL
A	Below 25 qtls.	20.00	40.00	60.00
B	From 26 qtls. to 50 qtls.	22.50	50.00	72.50
C	From 51 qtls. to 80 qtls.	25.00	60.00	85.00
D	From 81 qtls. to 120 qtls.	30.00	75.00	105.00
E	From 121 and above	50.00	100.00	150.00
<u>3. COOPERATIVES</u>		REGISTRATION FEE	MEMBERSHIP FEE	TOTAL
1.	Producers' Associations	25.00	100.00	125.00
2.	Service Catering Associations	25.00	100.00	125.00

ANEX D. ASMARA CHAMBER OF COMMERCE MEMBERSHIP FEES (in birr), continued

OUTSIDE ASMARA (AWRAJAS)				
<u>1. CAPITAL</u>		REGISTRATION FEE	MEMBERSHIP FEE	TOTAL
A	30,000,001 and above	65	550.00	615
B	5,000,001 - 30,000,000	55	450.00	505
C	1,000,001 - 5,000,000	45	350.00	395
D	500,001 - 1,000,000	35	250.00	285
E	200,001 - 500,000	25	150.00	175
F	50,001 - 200,000	20	100.00	120
G	15,001 - 50,000	15	50.00	65
H	5,001 - 15,000	13	30.00	43
I	1,001 - 5,000	12.50	25.00	37.50
J	1,000 and below	12	20.00	32

ANNEX E. LIST OF INTERVIEWS

The persons named below were interviewed for this study as well as for the Municipal Management study.

Ministry of Local Government:

Habtaeb Tesfatsion	Vice Minister
Gabriel Tzeggai	Acting Director, Town Planning and Development Department
Makonnen Abraha	Acting Director, Research and Planning Department
Ahmed Al-Kaysi	Land Commissioner
Alemseghed Tesfai	Assistant Land Commissioner

Ministry of Finance and Development:

Tesfamarian Tekie	Acting Head of External Economic Cooperation Department
Alazar Mesfin	Head of Inland Revenue Department

Ministry of Trade, Industry and Tourism:

Alem Tsehaye	Head of Foreign Trade Department
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Asmara Chamber of Commerce:

Kiflemariam Zerom	Secretary General
Hailom Negassi	Board Member
Mohamed Brhanata	Board Member
Efrem Tesfay	Expert, Ministry of Finance and Development
Heruyi Asgedom	Board Member, Ministry of Agriculture
Ghirmai Abraham	Head, Accounting and General Services
Ghebrehinet Teclé	Harambee Sweater Factory

Asmara University:

Melake Tewolde Head, Economics Department

Ghiorghis Tekle Lecturer, Economics Department

City of Asmara:

Sebhat Ephrem Governor of Asmara Province

Rezene Medhanie Director of the Technical Department, Asmara City Council

City of Dekemhare:

Desta Ghebremichael Town Administrator (Mayor)

Azieb Town Administrator, June 1993 (Mayor)

City of Hagaz:

Tesfai Tekle Town Administrator (Mayor)

City of Keren:

Osman Mohammed Omar Town Administrator (Mayor)

Asmerom Redde Director of Finance Department

Mehari Beyene Budget and Accounting Office

Tewolde Berhe Director of Technical Department

City of Mendefera:

Dragon Hailemelekot	Town Administrator (Mayor)
Teclu Yehdego	Deputy Mayor
Tesfai Haile	Director of Finance Department
Zeregaber Tesfagiorghis	Director of Technical Department
Negusse Nemariam	Surveyor
Yodit Teclai	Surveyor
Bereket Ghile	Director of Social Services Department
Nurhussien Saleh	Director of Public Affairs Department
Tesfaldet Ghebretsadik	Procurement Officer, Department of Management
Teklezghi Tesfamariam	Director of Rental Housing Department
Adhanom Ghebremariam	Governor of Seraye Province

City of Naq'fa:

Ahferom Tewolde	Town Administrator (Mayor)
Mohammed Said Nawd	Governor of Sahel Province

City of Massawa:

Ibrahim Idris Totil	Governor of Semhar Province
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City of Agordat:

Mehari Ghebremichaels	Deputy Governor of Barka Province
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City of Tessenei:

Deputy Administrator

Others:

Michael Askwith Chief, UNDP Liaison Office and Representative

Berhane Gila Michael Lawyer

Kidane Solomon Eritrea Investment Center